

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

PURCHASED WATER ADJUSTMENT)	
FILING OF KIRKSVILLE WATER)	CASE NO. 9317
ASSOCIATION, INC.)	

O R D E R

On March 29, 1985, Kirksville Water Association, Inc., ("Kirksville") filed its application with the Commission requesting approval of its purchased water adjustment clause and authority to adjust its rates in accordance with that clause. Effective April 1, 1985, Kirksville's supplier, the City of Richmond, Kentucky, ("City") increased its wholesale price of water by approximately 54 cents per 1,000 gallons, for a yearly increase of \$18,250 on a test-period basis. The Commission has accepted Kirksville's proposal subject to the absorption test described herein. In this proceeding the Commission has found that Kirksville can partially absorb the increased cost of water and has, therefore, allowed an increase in rates calculated to amount to an additional \$15,896 per year.

COMMENTARY

Before approving increased rates resulting from purchased water cost increases pursuant to 807 KAR 5:067, the Commission must examine a utility's financial condition to determine whether it can absorb any of the increased cost. If there is potential for absorption, the Commission may adjust rates to offset only

that portion of the increased water costs which cannot be absorbed.

TEST PERIOD

Pursuant to 807 KAR 5:067, Section 1.1(b), Kirksville filed a detailed statement of water purchased under the base rates for a 12-month period ending within 90 days of the filing date. The Commission, therefore, accepts the proposed test period ending December 31, 1984. Adjustments deemed proper and reasonable have been included to more accurately reflect current operating conditions.

REVENUES AND EXPENSES

The rates proposed by Kirksville will increase revenues by \$18,250 to offset the increased cost of purchased water. No other adjustments were proposed. The Commission has made the following adjustments to more fairly represent the actual operating expenses of Kirksville:

Depreciation Expense

Test period depreciation expense for Kirksville was \$19,762. This reflects depreciation on total plant in service and results in a composite depreciation rate of approximately 2.12 percent.¹ It is the practice of this Commission to allow, for rate-making purposes, depreciation only on the non-contributed portion of plant. Such a practice ensures that ratepayers pay only for the plant acquired through investment and not the plant acquired through contributions. Kirksville's balance sheet

¹ $\$19,762 \div \$930,949 = 2.12\%$

reflects contributions in aid of construction of \$634,060 at the end of the test period. This represents approximately 68 percent of the total plant in service. In determining the pro forma depreciation expense the Commission has excluded the contributed portion of plant and applied Kirksville's composite rate to the remaining portion resulting in adjusted depreciation expense of \$6,300,² a reduction of \$13,462 from the test-period depreciation expense.

Purchased Water Expense

Kirksville reported purchased water expense of \$33,599 for the test period. This figure includes water loss of approximately 18.3 percent. It is the Commission's judgment that a water loss of 15 percent is the maximum which is allowable for rate-making purposes and has therefore decreased Kirksville's test period purchased water expense by \$1,255 to reflect water loss of 15 percent. Accordingly, the Commission has increased Kirksville's operating expenses by \$18,250 to reflect increased purchased water costs. This results in a net increase to operating expenses of \$16,995.

Adjustments to the test period operations produced the following results:

2	Plant in Service	\$930,949
	Less: Contributions in Aid of Construction	<u>634,060</u>
	Depreciable Plant	\$296,889
	Composite Rate	x 2.12%
	Depreciation allowed for Rate-making Purposes	<u>\$ 6,300</u>

	<u>Actual</u>	<u>Commission Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$102,565	-0-	\$102,565
Operating Expenses	96,459	\$3,533	99,992
Operating Income	<u>6,106</u>	<u><\$3,533></u>	<u>2,573</u>

REVENUE REQUIREMENTS

The average annual debt service for Kirksville for the 5 years subsequent to the test period is \$20,292. The adjusted operating income of \$2,573 plus interest income in the amount of \$5,881 results in total income for rate-making purposes of \$8,454. The Commission is of the opinion that a debt-service coverage ("DSC") of 1.2X is a fair, just and reasonable coverage for Kirksville to maintain in that it will allow Kirksville to meet the requirements of its lenders and cover operating expenses. In order for Kirksville to maintain a 1.2X DSC, it requires a net operating income of \$24,350. Accordingly the Commission has determined that additional revenue in the amount of \$15,896 is necessary. The Commission, therefore, finds that Kirksville should increase its rates to produce additional revenues as follows:

Adjusted Operating Expenses	\$ 99,992
1.2X DSC	24,350
Total Revenue Requirement	<u>\$124,342</u>
Other Income	5,881
Revenue Required From Rates	<u>118,461</u>
Actual Test-Period Operating Revenues	102,565
Increase Required	<u>\$ 15,896</u>

The Commission is of the opinion and finds that Kirksville can absorb \$2,354 of the \$18,250 increase in its purchased water expense.

RATE DESIGN

In calculating the rates resulting from the purchased water adjustment granted herein, it was noted that the minimum bills for 1-1/2 inch and 2 inch meters do not follow the rate design policy of this Commission in that the established minimum bills are greater than the cost when the allowed minimum gallon usage is applied to the rate schedule. The Commission is of the opinion that, under the provisions of 807 KAR 5:067, Purchased Water Adjustment Clause, no change in rate design should be made at this time; however, Kirksville's rate design should be closely reviewed in its next rate case.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The purchased water adjustment clause filed by Kirksville is in compliance with 807 KAR 5:067, Purchased Water Adjustment Clause, and should be approved.

2. Kirksville has the potential to absorb \$2,354.

3. The rates as proposed by Kirksville are unfair, unjust and unreasonable and should be denied upon application of KRS 278.030.

4. A purchased water adjustment in the amount of 47 cents per 1,000 gallons³ and the rates in Appendix A will provide the additional revenues granted herein and are fair, just and reasonable and, therefore, should be approved.

3 \$15,896 ÷ 33,821.70 M gal. = \$.47

5. For future application of the purchased water adjustment clause of Kirksville the base rate from the City should be:

<u>Number of Cubic Feet Per Month</u>		<u>Price per 100 Cubic Feet</u>
First	300 Cubic Feet per month (minimum)	\$5.65
Next	400 Cubic Feet per month (per 100 cubic feet)	1.65
Next	5,000 Cubic Feet per month (per 100 cubic feet)	1.50
Next	5,000 Cubic Feet per month (per 100 cubic feet)	1.25
Over	10,700 Cubic Feet per month (per 100 cubic feet)	.94

IT IS THEREFORE ORDERED that the purchased water adjustment clause filed by Kirksville be and it hereby is approved effective on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by Kirksville be and they hereby are denied.

IT IS FURTHER ORDERED that the rates in Appendix A are the fair, just and reasonable rates to be charged for water service rendered on and after the date of this Order and are hereby approved.


IT IS FURTHER ORDERED that for the purpose of future application of the purchased water adjustment clause of Kirksville the base rate for purchased water from the City should be:

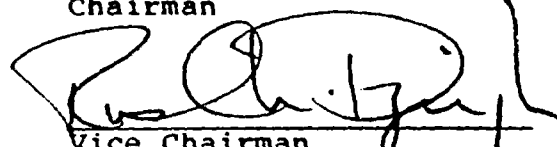
<u>Number of Cubic Feet Per Month</u>		<u>Price per 100 Cubic Feet</u>
First	300 Cubic Feet per month (minimum)	\$5.65
Next	400 Cubic Feet per month (per 100 cubic feet)	1.65
Next	5,000 Cubic Feet per month (per 100 cubic feet)	1.50
Next	5,000 Cubic Feet per month (per 100 cubic feet)	1.25
Over	10,700 Cubic Feet per month (per 100 cubic feet)	.94

IT IS FURTHER ORDERED that Kirksville shall file with the Commission within 30 days of the date of this Order its revised tariff sheets setting out the purchased water adjustment clause and the rates approved herein.

Done at Frankfort, Kentucky, this 28th day of June, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 9317 DATED JUNE 28, 1985.

The following rates are prescribed for the customers receiving water service from Kirksville Water Association. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

5/8" x 3/4" METERS

<u>USAGE BLOCK</u>	<u>MONTHLY RATES</u>
First 2,000 gallons	\$ 9.19 Minimum
Next 3,000 gallons	2.97 per 1,000 gallons
Next 5,000 gallons	2.47 per 1,000 gallons
Next 15,000 gallons	1.97 per 1,000 gallons
Next 25,000 gallons	1.72 per 1,000 gallons
Over 50,000 gallons	1.47 per 1,000 gallons

1 1/2" METERS

<u>USAGE BLOCKS</u>	<u>MONTHLY RATES</u>
First 10,000 gallons	\$ 45.95 per 1,000 gallons
Next 15,000 gallons	1.97 per 1,000 gallons
Next 25,000 gallons	1.72 per 1,000 gallons
Over 50,000 gallons	1.47 per 1,000 gallons

2" METERS

<u>USAGE BLOCKS</u>	<u>MONTHLY RATES</u>
First 16,000 gallons	\$ 73.52 Minimum
Next 9,000 gallons	1.97 per 1,000 gallons
Next 25,000 gallons	1.72 per 1,000 gallons
Over 50,000 gallons	1.47 per 1,000 gallons